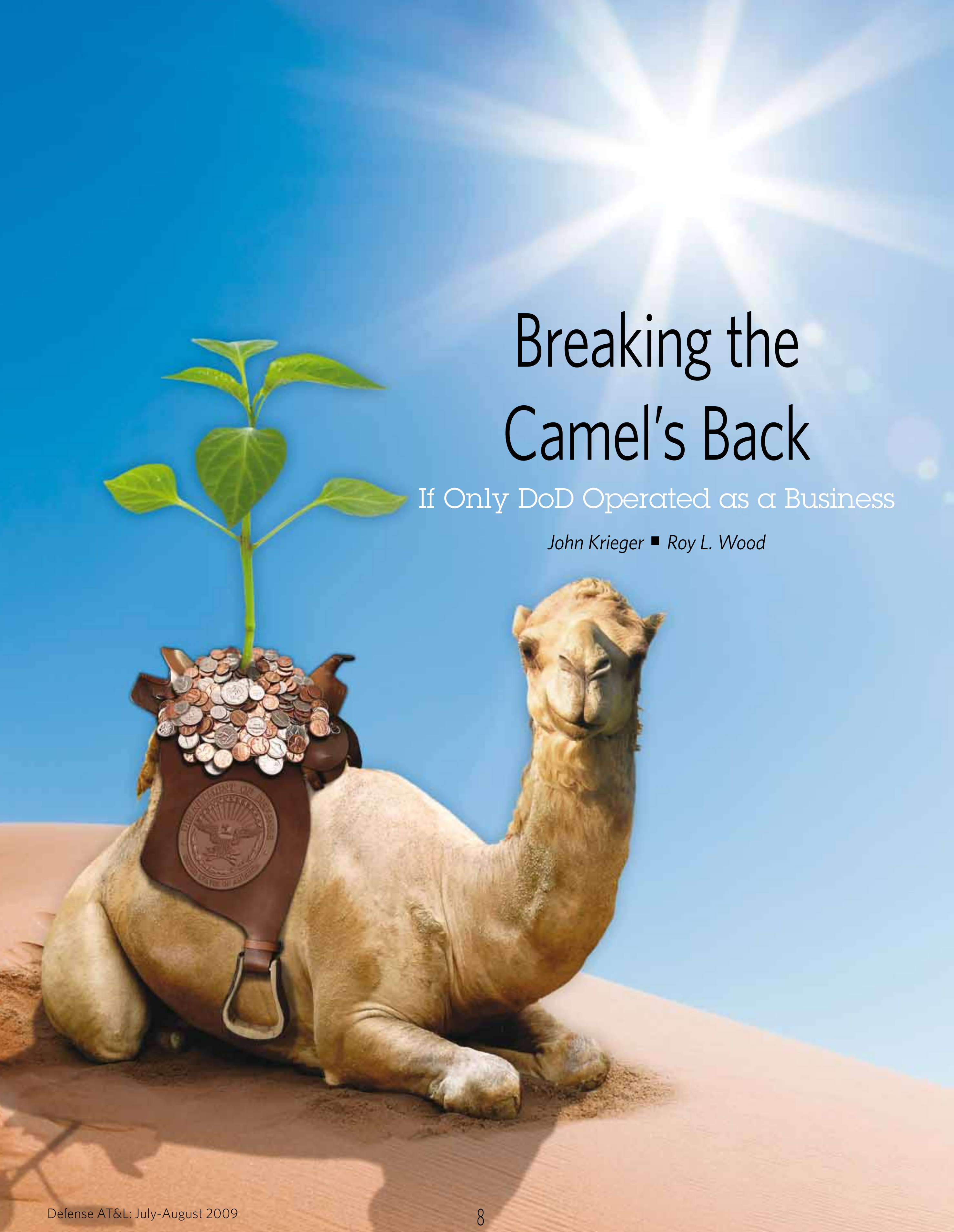


Breaking the Camel's Back

If Only DoD Operated as a Business

John Krieger ▪ Roy L. Wood

If the Department of Defense could operate more like a commercial business, weapons systems would be cheaper, on time, and meet the needs of the battlefield commanders. That is a recurring theme in the dozens of acquisition reform studies over

Krieger *is a professor of contract management for DAU's School of Program Management. He has 29 years of government experience in contracting and acquisition, and is a former assistant commander for contracts at the Marine Corps Systems Command.* **Wood** *is the dean of DAU's School of Program Managers. He is a former assistant deputy under secretary of defense and retired Navy engineering duty officer.*

the past several decades. Most recently, a Defense Science Board report noted almost wistfully that DoD should adopt "commonplace tenets of good management practice that abound in the commercial sector" (Defense Science Board 2008 report, "Defense Imperatives for the New Administration"). While no one we know has the chutzpah to defend many of DoD's more notorious business blunders, comparing DoD with commercial business is a faulty analogy. While "making DoD work more like a business" makes for a good soundbite, it grossly oversimplifies the situation and can inadvertently drive discussion away from realistic solutions. To apply a quote from H.L. Mencken: "There is always a well-known solution to every human problem—neat, plausible, and wrong."

Do We Really Want to Be Like Business?

"DOD's [*sic*] business practices need not be worse than the commercial sector's norm," according to the Defense Science Board's 2008 report. First of all, to disabuse oneself of the belief that commercial business practices are the simple answer to DoD's problems, one need only be reminded of recent corporate debacles involving Enron, Worldcom, and Tyco. Freddie Mac and Fannie Mae—paragons of quasi-governmental, market-driven corporations—were at the crux of the 2008 home mortgage financial collapse. Arguably among the historically most successful businesses, the "Big Three" U.S. automakers are, as of this writing, marching hats-in-hand to Congress on the brink of failure because of poor economic conditions and bad business decisions.

Do we really want DoD to emulate corporations in the commercial sector? Before answering, perhaps a quick tally is in order. How have commercial firms in the commercial sector fared over time? According to Price Prichett in his book *The Employee Handbook of New Work Habits for a Radically Changing World*:

- Of the 100 largest U.S. companies at the beginning of the 1900s, only 16 are still in existence today.
- Only 29 out of the 100 firms topping the first Fortune 500 list, created in 1956, could still be found in the top 100 by 1992.
- During the 1980s, a total of 230 companies—46 percent—disappeared from the Fortune 500 list.

Product development and sustainment in the commercial sector are, likewise, not as ideal as many wish to believe. According to Robert G. Cooper's book, *Winning at New Products*, only one of four commercial projects that enter development make it to market; one of three products fails at launch, despite business research and planning; and a whopping 46 percent of all investments in product development and commercialization fail to yield an adequate financial return. Echoing this sad statistic, Greg A. Stevens and James Burley suggest that of 3,000 raw product ideas, only one makes it as a commercial success ("3,000 raw ideas = 1 commercial success!" *Research Technology Management*, May-June 1997).

In a similar vein, public projects outside DoD fare no better in terms of cost and schedule performance. Boston's "Big Dig," the "Chunnel" connecting England and France, and over 100 other projects on roads, bridges, and public building projects experienced significant cost overruns and substantial schedule delays. The "Big Dig" project in Boston, for example, overran its costs by 196 percent, and the Chunnel by 80 percent, according to Bent Flyvbjerg, Nils Bruzelius, and Werner Rothengatter in their book *Megaprojects and Risk: An Anatomy of Ambition*. There are certainly greater similarities between the management of public infrastructure projects and those of the DoD; and unfortunately, there are strikingly similar results.

Why DoD is Not Like a Business

DoD has a mission that is embedded directly in the preamble to the Constitution of the United States: "provide for the common defence." The department is essentially a "public utility" that provides "energy" for the security of the nation. Some of this energy is invested in acquiring infrastructure in the form of ships, aircraft, tanks, and the myriad military systems needed to carry out the mission. This public utility is driven by an enormous bureaucracy that is overseen by a "board of directors" of 535 members of Congress. Billions of dollars flow through the department each year to a relative few defense contractors who build the wares of war and employ hundreds of thousands of skilled workers (who happen to also be congressional constituents and voters). As such, the department, unlike every business, operates as a not-for-profit monopsony [*a market condition with a single buyer*] buying goods and services from an industrial oligopoly [*a market condition with few sellers who can limit competition and materially affect price and availability of goods*]. The department has no profit motive to drive its behavior, and the defense industrial base is inextricably tied to its sole customer but has few real incentives (such as fierce competition) to control costs.

As a large spender of taxpayer funds, DoD is often the tool for implementing public policy—some having little to do with good business decisions or generating effective national defense. For example, a small percentage of the defense budget is siphoned off each year to fund small business innovative research projects. There are laws requiring defense contract preferences and set-asides for small, disadvantaged businesses. And there are, of course, congressional earmarks in each year's authorizations and appropriations that direct funding to a particular project or constituency. Those efforts may contribute to the public good, but they do so in ways that no smart business would operate.

As a regulated industry, DoD operates under mountains of guidance and oversight. Since 1994, Title VIII of the National Defense Authorization Act has included more than 500 sections of acquisition provisions. The Federal Acquisition Regulation contains 1,933 pages of legalese; and its companion document for DoD, the Defense Federal Acquisition Regu-

lation Supplement (DFARS), provides another 1,015 pages. Even the *Defense Acquisition Guidebook*, designed to help acquisition managers navigate the labyrinthine regulations and procedures, is 520 pages. For comparison, *Moby Dick* is a minnow-sized 420 pages, and even Tolstoy's epic *War and Peace* is dwarfed at 699 pages. Each rule and regulation was undoubtedly created over time to enshrine a good practice or prevent an egregious error, but each of these Band-Aid® fixes to the acquisition process has created a challenging and wholly unbusiness-like system.

On the customer side, the defense customer base is represented by a small number of senior decision makers who establish the requirements for new battlefield equipment, unlike a commercial marketplace in which the customers represent themselves. Through yet another complex vetting process called the Joint Capabilities Integration Development System (JCIDS), battlefield shortfalls are identified, alternatives evaluated, and decisions made about what is needed and how it must perform. The process is completely logical, if slow and cumbersome, but being largely divorced from the buying process, it generally encourages "everything and the kitchen-sink" requirements that press the acquisition system to try to buy a Cadillac system with a Yugo budget.

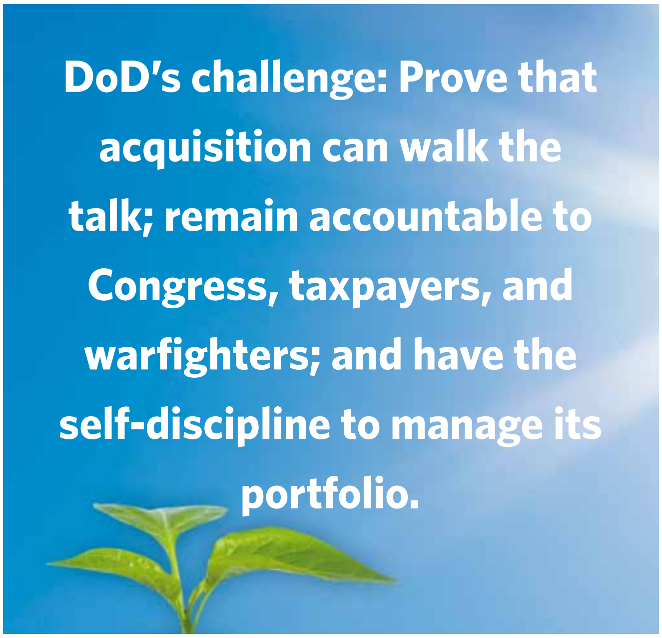
Reinforcing this opinion, a 2008 Government Accountability Office (GAO) report noted that the system was not particularly effective in its analytical rigor or in aiding DoD to make good investment choices. In fairness, this situation is improving with closer collaboration between requirements setters and buyers, but there is a wide gap between this process and one that might be considered business-like.

Improving DoD Acquisition

Recognizing that DoD does not operate as a business and that, even so, operating like a business is not a panacea, there are clearly improvements that can and should be made. Even with the constraints under which DoD operates, scarce taxpayer dollars can and should be invested to maximize the defense and security capabilities DoD can deliver. To do that, a number of fundamental changes must be made and, frankly, it is not at all clear whether there is the political will to make it happen.

Managing the Product Line

Many in DoD, Congress, and elsewhere would agree that DoD has too many acquisition programs chasing too few dollars. GAO recently estimated that the entire portfolio of DoD projects amounted to more than $1.7 trillion and was completely unaffordable. The first fundamental, absolutely necessary change is to bring the DoD portfolio into line with the available budgets. That means the JCIDS process must morph into a system that can aid in making tough strategic choices of which capabilities are really needed—and affordable—and which should be deferred or canceled. Such decisions will take courage to make and perseverance to stick.



Every acquisition program will have advocates in Congress, industry, and elsewhere who will insist that its cancellation will mean the end of civilization as we know it. Yet, continuing to fund and extend lower-value programs will hurt the rest of the portfolio and ultimately damage national security and battlefield readiness. Rightsizing the acquisition portfolio may require an approach similar to Base Realignment and Closure in which low-priority acquisition programs are bundled for an up-or-down vote by stakeholders. Demonstrating the benefits of eliminating a few programs to the remaining ones in the portfolio might defuse some of the stakeholder criticism. Remaining programs reap the benefits of higher-priority, more stable funding; and perhaps allow greater numbers of systems be developed and fielded. This approach could be more successful than the whack-a-mole tactic of eliminating one program at a time and battling the stakeholder antibodies that would emerge in support of each individual program.

Simplified Regulation and Greater Accountability

Well-meaning statutes and regulations have become so complex and constraining that in many cases, smart business decisions are not only difficult, but impossible. Regulation designed to prevent mistakes have created a zero-tolerance environment in which risk avoidance and ultra-conservative approaches translate to higher costs, longer schedules, and poor decision making. While difficult, a comprehensive review of acquisition laws and regulations needs to be conducted to eliminate the unnecessary, streamline overly prescriptive and constraining rules, and create a rule set that fosters innovation and good decision making. In the meantime, a legislative holiday needs to be imposed to temporarily keep from exacerbating and complicating the situation until the review can be completed. To balance streamlined regulation, it will be incumbent upon DoD to insist on greater accountability from its acquisition

A Six-pack of Tips for Defense AT&L Authors

1 Look at back issues of the magazine. If we printed an article on a particular topic a couple of issues ago, we're unlikely to print another for a while—unless it offers brand new information or a different point of view.

2 We look on articles much more favorably if they follow our author guidelines on format, length, and presentation. You'll find them at *<www.dau.mil/pubs/pdf/DAT&L%20author%20guidelines_080528.pdf>*.

3 Number the pages in your manuscript and put your name on every page. It makes our life so much easier if we happen to drop a stack of papers and your article's among them.

4 Do avoid acronyms as far as possible, but if you must use them, define them—every single one, however obvious you think it is. We get testy if we have to keep going to *acronym finder.com*, especially when we discover 10 equally applicable possibilities for one acronym.

5 Fax the *Certification as a Work of the U.S. Government* form when you e-mail your article because we can't review your manuscript until we have the release. Download it at *<www.dau.mil/pubs/pdf/DAT&L%20author%20guidelines_080528.pdff>*. Please don't make us chase you down for it. And please fill it out completely, even if you've written for us before.

6 We'll acknowledge receipt of your submission within three or four days and e-mail you a publication decision in four to five weeks. No need to remind us. We really will. Scout's honor.

program managers and oversight officials. One way to do this is to extend the tenure of defense program managers to at least five years—and make that stick—so they live with the consequences of their decisions. Another requirement would be to increase the rigor of milestone and gate reviews for programs. Too often, the default decision at milestone reviews is to allow the program to proceed to the next, more-expensive phase rather than holding it back until it is proven to be sufficiently mature. This tough love approach would require courage, but would restore substantial credibility to the integrity of the idea that the acquisition system can self-manage.

Operating with Good Business Principles

While DoD is not a business, nor can it ever be expected to operate like one, there are always opportunities for it to employ admirable principles like transparency, accountability, self-discipline, fairness, social responsibility, and customer focus. Those principles are at the core of many of the laws and regulations that attempt to codify and enforce them. If DoD demonstrated that it embraced such principles in all its business dealings, the laws and regulations would be unnecessary. That is DoD's challenge—prove that acquisition can walk the talk; remain accountable to Congress, taxpayers, and warfighters; and have the self-discipline to manage its portfolio.

Changing the Process

DoD acquisition is not a business. It never has been; it never will be. Rather, it operates much as a public utility, with significant oversight and regulation. The acquisition process must contend with powerful stakeholders who encourage the status quo; a risk-averse decision-making process that adds cost and delay; and an overstuffed portfolio created by customers with largely unconstrained appetites and no real linkage to budgets. With all these challenges, the system operates much as one might imagine—but certainly not like a commercial business.

If any improvement is possible, changes must be made within the framework DoD operates. Claiming that operating more like a business will solve the ills is overly simplistic and simply wrong. If change is possible, it must come from both inside and outside. Inside, the acquisition system itself must display the discipline, courage, and deep understanding of real constraints and the art of the possible. Change will come when the system demonstrates the ability to better self-govern. From the outside, Congress and key stakeholders must provide sufficient latitude and maneuvering room for the system to heal by removing some of the onerous regulatory and bureaucratic rules, allowing the system to streamline itself. Perhaps this is a chicken-and-egg challenge that lends itself to incremental change, but there are bold incremental changes that can help. The time to start is now.

The authors welcome comments and questions and can be contacted at **john.krieger@dau.mil** and **roy.wood@dau.mil**.